

State Treasurer Questions

1. Why do you want to be State Treasurer?

I believe my experience and knowledge can be useful to the Governor and the state of Michigan. As State Treasurer I hope to work cooperatively with the Legislature to improve Michigan's tax structure, business climate, and economy. I have worked for 40 years analyzing the Michigan economy and developing and researching state-local tax policy, and the opportunity to serve as the state's treasurer is still a unique and exciting challenge.

2. What will be your top goals as treasurer?

Some of my top goals include:

- **Tax restructuring and supporting the implementation of Governor Granholm's economic policies;**
- **Implementation of a new, state-of-the-art Sales, Use, and Withholding Tax Administration System, which will pave the way for other technology initiatives;**
- **Upgrading our data analysis capabilities; and**
- **Improving our ability to predict and respond to local fiscal emergencies.**

I also believe that these issues should not overshadow the important, day-to-day ongoing goal of providing fair and efficient customer service to taxpayers.

Finally, as the fiduciary of the pension funds, I am focused on improving returns from those funds.

3. As you know, one of your biggest responsibilities as Treasurer is the fiduciary responsibility of investing all the state's money, especially public employee pension funds. Do you have a new strategy in mind to improve the investment returns on the state's investments? Given the problems with corporate bookkeeping practices, the unreliability of some accounting firms' audits, and the questionable practices of investment firms and brokerage houses, how do you intend to assure that your information is reliable?

We are pursuing a number of strategies to improve performance, among which are:

- **Securing the services of external managers to invest in the smallest portions of the U.S. equity markets -- S&P 400 Mid-Cap and S&P 600 Small-Cap -- where the Bureau does not, and can not, have sufficient resources to effectively manage internally;**
- **Hiring external managers for active management of international equities. The Bureau has used an indexing approach to investing in**

developed international markets since 1993, and the shift will result in greater investment in actively managed portfolios. Given the inefficiencies of non-U.S. markets, we concluded that there would be benefits available from active management;

- Adding external bond managers. Similar to segments of the equity markets, the Bureau's Fixed Income Division has begun hiring external bond managers who have significantly greater resources than the Bureau to conduct broader credit research on corporate bonds, especially in such niche areas as asset-backed securities.

Concerning the issue of questionable practices, our Bureau of Investments was an early adopter of the "Merrill-Spitzer Investment Protection Principles." The Bureau has hired an experienced securities law attorney from another state agency to put in place procedures to ensure compliance with the executive order. As a result the bureau has:

- Developed and implemented the Corporate Governance Core Principles and Guidelines and a Proxy Voting Policy;
- Created legal documents that are required to initiate relationships with outsider investment managers. These documents include the investment management agreement, ethics/gift representation, Investment Protection Principles letters, and the documentation of performance expectations;
- Issued over 60 letters signed by money management firms, securities broker-dealers and investment bankers agreeing to compliance with Executive Directive 2003-11 regarding Investment of State Funds to Promote Corporate Responsibility and Investment Protection Principles. Ongoing compliance and reporting requirements will ensure continued safeguards in the separation of securities research analyst's responsibilities and those involving investment banking.

4. What is your opinion of the current tax structure in Michigan?

In many ways the Michigan tax system, as a combined state and local system, is similar to other states. It differs from other states in that its taxes are somewhat more centralized at the state level and because it has a flat rate rather than a graduated income tax. It also differs in that it has the SBT. While I believe the level of taxes in Michigan is reasonable (Michigan ranks 29th in total state-local taxes as a percent of personal income and 36th in business taxes as a percent of Gross State Product), the Single Business Tax has become too complex and too unpopular and needs to be eliminated or substantially reformed.

5. What is your position on the dissolution of the single business tax (SBT)? If you think the SBT should stay in its current form or in a modified form, please explain why. If you think it should be eliminated, what do you think should replace it?

Many economists, including Patrick Anderson and Gary Wolfram agree that the tax as originally enacted was a tax with many positive and desirable features. Over the years the tax has become riddled with special provisions. As a result, the tax has become much too complex. For this reason and because the SBT has become a distraction, I believe the tax should be replaced or substantially reformed. In her proposal the Governor adopted the principles of lowering the rate, broadening the base, and simplifying the tax and I believe these are excellent objectives to keep in mind as we move forward. I have not formed a conclusion as to what the final product of business tax restructuring in Michigan should be. I am hopeful that the final product can be the result of conversation and consensus with the Governor, the Legislature and interested parties.

6. On March 7, 2006, you gave testimony before the Tax Restructuring Committee, Tax Policy Committee in the Michigan House of Representatives. In your testimony you stated, "The business tax burden in Michigan is average or below average and is not the cause of the state's economic problems." Businesses, on the other hand, say that the SBT and the personal property tax are major parts of the state's economic problems. How do you explain the discrepancy between your position and that of the business community? Also, given your statement please explain why the state needs the Michigan Economic Growth Authority whose main job is to give tax breaks.

I believe that this question deals with separate concepts. According to the Council on State Taxation, Michigan's business taxes are 4.3 percent of personal income, about 10 percent below the national average and only 36th highest in the nation. These are national rankings compiled by an organization comprised of multistate business taxpayers and while they deal with the overall level of taxation they do not address the question of how certain businesses are affected by certain taxes or how they perceive them.

Most states, including those with the lowest overall tax burdens, have entities much like Michigan Economic and Growth Authority (MEGA) to compete with other states in offering incentives to businesses for specific projects. Unless we are willing to unilaterally disarm we need to retain the functions performed by MEGA.

7. Do you think business taxes play a role in a business's decision to locate or expand in Michigan?

I believe that in some cases taxes can influence specific decisions about whether to locate or expand in Michigan. However, most studies have found that other factors such as quality of the work force, labor costs, utility costs, and quality of schools and infrastructure are more important.

8. Currently, there are many problems with the application of the principal residence exemption in Michigan. For instance, there is no communication between government entities on who is claiming the exemption, some individuals claim more than one exemption, and many people who are eligible to claim the exemption do not know they can do it. Before any changes are made to the overall tax system do you think the problems with the principal residence exemption need to be addressed?

The Department of Treasury remains committed to assisting local units of government in identifying incorrectly claimed principal residence exemptions. While improving communication between and among units of government (including the State) is always desirable, I would hesitate to say there is “no communication”. In fact, I understand there has been considerable discussion and interaction on this issue, as well as general agreement about problems with the current process and possible solutions.

9. What is your opinion on the following ideas currently in the legislature: (a) the Fair Tax; (b) a sales tax on services; (c) a corporate income tax; (d) reducing the small business alternative tax; and (e) the Detroit Chamber of Commerce study.
- a. **There have been serious questions raised about whether the revenue estimates for the “Fair Tax” are accurate and therefore the possibility exists that taxpayers will be paying at a rate even higher rate than the 8.5 percent rate that has been suggested for Michigan. A high sales tax raises issues concerning transactions near our borders unless a “Fair Tax” becomes the norm. The plan proposes to replace a deductible tax with one that is not, an undesirable feature that can cause federal tax increases for many Michigan taxpayers. Finally, while there are numerous permutations of this proposal that have been mentioned, it is important to note that no specific proposal has been introduced in the Legislature.**
 - b. **Recent multistate surveys indicate that Michigan taxes fewer services than most states. Nevertheless we should proceed cautiously when we consider the taxation of services.**
 - c. **A corporate income tax imposes liability on only one type of business organization. Many businesses, including many large businesses, are not organized as corporations. Because federal limitations on nexus for a corporate income tax limit the ability to tax out of state businesses, fewer businesses can be relied on to raise the same revenue that might be raised from other taxes. The tax tends to be more volatile than other forms of taxation. Nevertheless I do not rule out consideration of some form of business income tax as part of a tax restructuring plan. Again, no specific proposal has been introduced.**

- d. If some form of a substantially modified SBT is to be retained, the reduction of the alternative profits tax should be considered as part of that comprehensive package.
- e. The recommendation of the Detroit Chamber that has received the most attention is the proposed business license fee/ tax. Because it is a form of gross receipts tax it has undesirable pyramiding. Although it may reduce revenue by about \$300 million, preliminary analysis of the proposal as presented in the report suggests that a large number of taxpayers may still receive a tax increase. The million dollar cap for the largest businesses raises concerns. The simplicity of the proposal is attractive and its best feature. Neither the proposal appearing in the Chamber report nor any variation has been introduced in the Legislature.

10. Do you think the Michigan Tax Tribunal is operating efficiently?

The Michigan Tax Tribunal is housed in the Department of Labor and Economic Growth. Since April 10, my first day on the job as Treasurer, I have focused on the many responsibilities of the Department of Treasury and have not really considered the operating aspects of the Tribunal. Therefore I think it would be inappropriate for me to answer to this question.

11. The state's debt service has gone up from 68 percent since 2003. How much debt should the state carry?

It is important to note, at the outset, that levels of general obligation debt are ultimately determined by the voters and a prerequisite two thirds vote of the Legislature. I personally am not sure there is a magic number. However, each of the three major rating agencies has stated categorically that Michigan's debt position is favorably low.

In its most recent statement about the State's 'AA2' general obligation bonds rating, Moody's said: "Michigan's debt position is well managed, and the state maintains low debt levels. Debt issuance has increased recently as the state, to provide some spending relief, has reduced the extent to which it finances projects with cash rather than debt. Michigan's debt levels still remain very manageable, leaving some budget flexibility for a further shift to bond financing to reduce spending should revenues fail to meet projected state targets. In Moody's 2005 State Debt Medians Report, Michigan ranked 26th in debt per capita and 29th in debt as a percentage of personal income."

Fitch Ratings also just issued a document entitled "State General Obligation Rating Outlooks" in which it noted that the State's AA rating, with negative outlook, "is based on strong management, a conservative approach to debt and financial operations, and a historical willingness to

rapidly respond to revenue shortfalls.” This despite Fitch’s note that it believes that Michigan will experience “continued increasing financial pressures making addressing deferred spending needs more difficult.”

Standard & Poor’s most recent rating also noted in its ‘AA’ rating for Michigan’s GO bonds, “the state’s favorable debt and pension positions remain additional strengths,” and “the state’s low debt position remains a strength.” In fact, S & P noted that “Michigan’s GO debt burden is low at \$160 per capita or 0.5 percent of personal income.”

12. Do you think the Michigan Venture Fund is operating smoothly? If yes, please explain. If no, what will you do to make it operate smoothly?

We are actively engaged in soliciting capital for the program. It appears that interest in the program is very high, and it is exciting to think of the contribution this could make to jump starting technology investment in Michigan. I am looking forward to attending my first board meeting on June 6. I welcome any comments from the Legislature on the operation of this important initiative.

13. In the announcement of your appointment as State Treasurer, the Governor said you would be playing a critical role in implementing the 21st Century Jobs programs. Please describe your role in implementing these programs and how will you work with the President of the Michigan Strategic Fund and the Michigan Economic Development Corporation in this effort.

As State Treasurer I serve as a member of the Michigan Strategic Fund Board of Directors, the Strategic Economic Investment and Commercialization Board, and the Michigan Tobacco Settlement Finance Authority. I am also responsible for management of funds deposited in the 21st Century Jobs Trust Fund and the Jobs for Michigan Investment Fund. I look forward to working in these capacities to implement 21st Century Jobs programs expeditiously and consistent with the intent of the Legislature. Job creation, economic diversification, and fiscal stability are all priorities of the Governor, and for you, and these goals will receive my full attention.

14. Over the past several months, there have been many problems with the implementation of the 21st Century Jobs programs. These problems concern, in large part, the sharing of information by the Treasury Department with the committees overseeing these programs. How do you plan to address this?

As State Treasure, I will assure that the Department of Treasury responds appropriately to requests for information from legislative committees and provides members of boards with a role in implementing 21st Century Jobs programs with information they deem necessary to implement the law. I am committed to working with the board members

and the Legislature to establish effective lines of communication and assure the appropriate channeling of requests.

15. During the 2002 campaign, the Governor said her first executive order would direct the state to cease doing business with bad corporate actors. Executive Order 2003-1 was issued as the mechanism to implement this promise. Are there written policies within the Department of Treasury to ensure that E.O. 2003-1 is implemented? How will you strengthen the Department's compliance with both the spirit and the letter of this E.O.?

Executive Order 2003-1 reflects a very important standard and, one I believe we all embrace as the right way to do business. The Management and Budget Act vests procurement authority and discretion for most state purchases of goods and services in the Department of Management and Budget. EO 2003-1 provides important guidance to the Department in exercising that discretion, including providing for the debarment of state vendors by the Department of Management and Budget. The Office of Acquisition Services at the Department of Management and Budget regularly purchases goods and services for the Department of Treasury, and is responsible for compliance with The Management and Budget Act and Executive Order 2003-1 in such instances. DMB relies upon its legal counsel at the Department of Attorney General in such matters. When authorities housed within the Department of Treasury engage in transactions not subject to the DMB procurement process, such as many bond deals, the authorities rely upon their legal counsel at the Department of Attorney General. I am committed to working to assure the Department of Treasury and authorities within the Department of Treasury are complying with the requirements and the spirit of EO 2003-1 whenever possible.